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CENTRAL INTELLIGENCE BULLETIN



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DAILY BRIEF

I. THE COMMUNIST BLOC

OK USSR-Greece: The Soviet Union may try to exploit criticism--led by leftist press and politicians--arising out of Greek inflationary problems by pressing for acceptance of an attractive offer to barter oil for unsold Greek tobacco.

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II. ASIA-AFRICA

N/O *Taiwan: Beneath the present surface manifestations of official alarm, responsible leaders seem fairly calm. A sampling of opinion in Taipei business circles discloses "business as usual" with no panic, hoarding, or rapid inflation. Government declarations of intent to disperse agencies, build air raid shelters, and take other emergency measures have not gone beyond the talking stage. Additional food supplies, however, are being sent to the offshore islands.

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OK Iraq: A struggle for influence between the Communists--who have resumed activity under the new regime--and radical Arab nationalists appears to be developing over the future relationship between Iraq and the UAR. Pro-Nasir elements in Iraq are calling for full union with the UAR. The Communists favor some form of looser ties.

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Tunisia: Defense Secretary Ladgham said on 21 August that the Algerian rebel leaders have been assured that Tunisia will not accept French arms at this time. As a further reflection of concern over relations with the Algerian rebels inside Tunisia, Ladgham also said that the rebels have been promised that until Algeria becomes independent no oil from the Sahara will be allowed to flow through the pipeline crossing Tunisia under a concession recently granted to a French company.

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Turkey: Pressure is building up within the ruling Democrat party to intensify repressive measures against the principal opposition group, the Republican People's party. The opposition's criticisms of the government have been particularly telling recently and are a source of annoyance to Menderes.

25X1 OK
Indonesia: Recent developments have seriously affected the Indonesian economy, and government officials are trying to devise an economic stabilization program. Indonesia will require extensive additional foreign aid in the near future to pay for essential imports.

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DAILY BRIEF

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III. THE WEST

NO
25X1 Britain--Cyprus: London intends to implement what it can of its modified Cyprus plan by holding elections for the Turkish communal assembly even if the Greek Cypriots refuse to participate. The British hope the Greek refusal to cooperate is not final, but are prepared to continue direct rule of the Greek Cypriots if necessary. 25X1

IV. SIGNIFICANT INTELLIGENCE REPORTS AND ESTIMATES

(Available during the preceding week)

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25X1 Special National Intelligence Estimate No. 65-58. The Outlook in Indonesia. 12 August 1958. 25X1

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DAILY BRIEF

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I. THE COMMUNIST BLOC

USSR Offers Barter Deal on Greek Tobacco Surplus

The USSR, capitalizing on the problem Greece will face within the next few days in financing large stocks of unsold tobacco, has offered to exchange crude oil for some of the surplus. The offer is likely to be accepted, despite the adverse effect on Greek arrangements with Western countries, because of the probable reaction from leftist papers and politicians if the government pays hard currency for Western petroleum while it fails to sell its burdensome tobacco surplus. Acceptance would increase Greece's already substantial trade dependence on the Communist world.

In order to finance the tobacco, in case it should not accept the Soviet offer, Greece would be forced to increase the currency in circulation. This would threaten the delicately balanced economy and could lead to a loss of faith in the drachma, a return to gold hoarding, and a flight of capital such as characterized the early postwar years. Since January 1957 the Greek Government has increased drachma notes in circulation by about 45 percent while gold and foreign-exchange holdings have been declining. Thus far, confidence in the drachma has been maintained and the cost of living has increased only slightly, largely because of marked increases in savings deposits. The increased money supply, however, has resulted in a sharp increase in imports--without a concomitant increase in exports--and a consequent substantial deterioration of the balance-of-payments position.

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II. ASIA-AFRICA

Communist and Nationalists Struggle for Influence in Iraq

A struggle for influence between the Communists and radical nationalists over the future of Iraq's relationship with the UAR is developing. The Communist party, hitherto suppressed, has been allowed free rein since the coup. In moves reminiscent of the Baathist-Communist contest in Syria last fall, the Communists are attempting to oppose Baathist pressure for immediate full Iraqi union with the UAR. Realizing that they cannot appear as opponents of Arab unity, the Communists are seeking to ward off complete union by proposing only federation with the UAR and close relations with the USSR.

The intensification of this power struggle will put severe pressures on the solid front so far presented by the regime. Having decided that Vice Premier Arif is "Nasir's man," the Communists are reported to be throwing their support to the less pro-Nasir and more moderate Prime Minister Qasim. A split between Arif and Qasim would probably divide the army into factions.

The Communists will probably receive support in their efforts from the leftist nationalist National Democratic Party of which Minister of Finance Muhammad Hadid is a leader, while the rightist and strongly nationalistic Istiqlal (independence) party led by Minister of Guidance and Information and Acting Foreign Minister Sidiq Shanshal and Councilor of State Muhammad Mahdi Kubba is likely to throw its support to the Baath. Nasir may begin a campaign of hints to the West that Iraqi union with the UAR is the only way to prevent a Communist take-over.

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Pressure on Turkish Opposition

The Turkish official radio continues to give wide publicity to the communiqué issued by the ruling Democrat party on 11 August which made thinly veiled threats to outlaw the Republican People's party, the major opposition group. If the government permits members of the Republican People's party to speak in the special Grand National Assembly session, which began on 21 August and is expected to last a week, they are likely to continue their vigorous and increasingly effective attacks on the government. This may cause Prime Minister Menderes to impose further restrictions on legislative immunities and other freedoms.

The Republican People's party has centered its attack on inflation, shortages, and dislocations, which result, in part, from Menderes' economic program. It has also won support by protesting restrictions on freedom. After the Iraqi coup, it extended its criticism to Turkey's foreign policy but reiterated its support for Turkey's US and NATO ties. It is even considering raising the question of American use of the Adana air base, as part of its general argument that the government should keep the opposition informed concerning foreign policy matters.

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Indonesia's Economic Difficulties

Indonesia's economy has been forced to a new low by the expulsion of badly needed Dutch technicians and the seizure of Dutch enterprises, the rebellions on Sumatra and Celebes, illegal barter trade, and the world-wide business recession. These factors have led to reduced foreign exchange earnings at a time when domestic inflation has heightened the demand for imported consumer goods. Inflationary pressures are intensified by a materially increased budgetary deficit, which is due in part to the drain on central government resources caused by the continuing military campaign against the dissidents.

Indonesia's gold and foreign exchange reserves--never at a satisfactory level--dropped from \$220,000,000 at the end of October 1957 to \$144,000,000 at the end of June 1958. There is every indication that the decline is continuing. Unless this trend is reversed, Djakarta may be disposed to turn to the Sino-Soviet bloc for additional help in bridging the exchange gap. There has been a flight of foreign capital, particularly Dutch and Chinese. The government, moreover, has failed to provide any encouragement to new foreign capital; the oil companies in particular have cut back new investment programs sharply.

The Djuanda cabinet has devised a coordinated stabilization program which was recently announced to Parliament. Exceptionally comprehensive, it was worked out with the help of an International Monetary Fund adviser; however, the American Embassy in Djakarta sees little of the administrative discipline required to make it successful in Indonesia's over-staffed but inefficient government. It seems particularly doubtful that the government, despite the army's promise of cooperation, will succeed in limiting the illegal barter trade of the outer islands. Local army commanders in these areas have themselves profited from this trade, which denies the central government both essential revenue and control over the use of an important share of foreign exchange receipts.

III. THE WEST

Britain to Implement Cyprus Plan Despite Greek Noncooperation

Britain intends to begin implementation of the modified Cyprus plan it announced on 15 August. London hopes that Athens' refusal on 19 August to cooperate is not final and may anticipate that the Greeks will grudgingly participate later rather than be left out when the plan is in operation. In any case, the British intend to go ahead with elections for the Turkish communal assembly even if the Greek Cypriots refuse to elect their assembly. Britain will continue direct rule of the Greek Cypriots if necessary.

Setting up the Governor's Council--the semiexecutive body to be composed of two Turkish Cypriots and four Greek Cypriots chosen by the communal assemblies--may prove impossible without Greek cooperation, however. London's suggestion of appointing British officials to present the Greek view appears unworkable.

London still expects Ankara to accept the plan. Prime Minister Menderes was shown a draft before publication; he described it as "not so bad." At Turkey's request, the British have offered to confirm in writing their 1956 promise to include partition among the options if the fate of the island is ever put to a vote.

Evidently anticipating wide public backing for the government's policy of going ahead, a Foreign Office official said on 20 August that the British public just wants a settlement--rather than any particular solution--and that the Labor party had been consulted on the modified plan.

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